

Headline inflation continued to slow down, reaching 13.1% yoy in April 2018. Inflation grew 0.8% in monthly terms.

However, inflation in April came in slightly higher than projected in the April 2018 Inflation Report, fueled by most volatile CPI components.

A larger-than-expected increase in food prices, driven by supply factors, was the main reason for persistently high inflation. Also, as in previous months, a further increase in production costs, including labor costs, and a rapid recovery in consumer demand kept inflation high. In addition, the prices of some imported non-food products reflected the weakening of the hryvnia exchange rate seen in late 2017 and early 2018, as these goods (e.g. spring and summer clothing and footwear prices accelerated to 1.7% yoy) are purchased by retailers in advance. High inflation expectations of some economic agents also contributed to the strong inflation pressure.

At the same time, the NBU's tight monetary policy continued to restrain price increases. So far, the effect of the tighter monetary policy has mainly been transmitted through the exchange rate channel, prompting the hryvnia to strengthen since late January 2018. This, in turn, affected the prices of imported goods that have shorter shelf lives.

Core inflation, at 9.4% yoy, was steady in April and in line with the NBU's projections.

The growth in the non-food prices accelerated to 4.2% yoy, driven by the significant weakening of the hryvnia seen in late 2017 and early 2018 and the rebound in consumer demand.

In the meantime, the strengthening of the hryvnia seen since late January had a downward effect on the prices of goods with shorter shelf lives. Indeed, the growth in the prices for highly processed foods slowed slightly, to 11.7% yoy. Another factor was moderating increases in raw food prices, driven mainly by higher imports and a further drop in global prices. More specifically, the growth in prices for meat and dairy products slowed (to 20.8% yoy and 14.3% yoy, respectively).

The growth in prices for services that are included in core inflation slowed as well, to 14.5% yoy, inter alia, owing to the strengthening hryvnia. In particular, prices for personal care services, as well as cinema and medical services rose at a slower pace. The growth in dwelling maintenance fees also decelerated, to 41.6% yoy, due to a favorable base of comparison (during the first half of last year tariffs for these

services were adjusted upwards in most large and medium-sized cities in Ukraine). Meanwhile, growth in prices for other services (catering services, mobile provider tariffs, and taxi services, etc.) accelerated due to continuing upward pressure from consumer demand and rising production costs - including labor costs.

Although slowing slightly in April, the growth in raw food prices, at 22.6% yoy, still remained significant, and exceeded the NBU's forecast. The acceleration in meat prices (to 26.7% yoy) largely explained the deviation from the forecast. In particular, pork prices surged, rising at 35.9% yoy, among other things, on the back of the strong demand amid scarce supply. Egg prices also rose at a faster-than-expected pace (93.0% yoy) on persistent strong external demand and thanks to additional opportunities to expand exports to the EU.

In the meantime, the growth in prices for fruits and vegetables slowed down (to 23.1% and 32% yoy, respectively). In particular, increases in prices for the borsch vegetables decelerated, to 35.0% yoy, largely due to a favorable comparison base. Prices for bananas rose at a slower pace as well due to a correction in global banana prices, while the rise in the prices of citrus fruit slowed due to higher imports.

The rate of growth for administered prices was almost flat at 13.7% yoy in April, however, still exceeded the NBU forecast. In particular, the growth in tobacco prices decelerated, although rising at a faster-than-expected pace. In addition, prices for water supply and sewerage, railway and air transportation, as well as bread prices accelerated. Meanwhile, the contribution of postal service prices decreased noticeably due to a favorable comparison base—postal service prices rose by a total of 67% in March – April 2017.

The growth in fuel prices slowed markedly, to 16.7% yoy, mainly owing to the benign FX market conditions. This significantly reduced the tax burden on fuel prices (since the excise taxes on fuel are set in euros).

In April 2018, the PPI inflation continued to slow, down to 14.1% yoy from 15.9% yoy in March. Month on month, producer price index held steady.

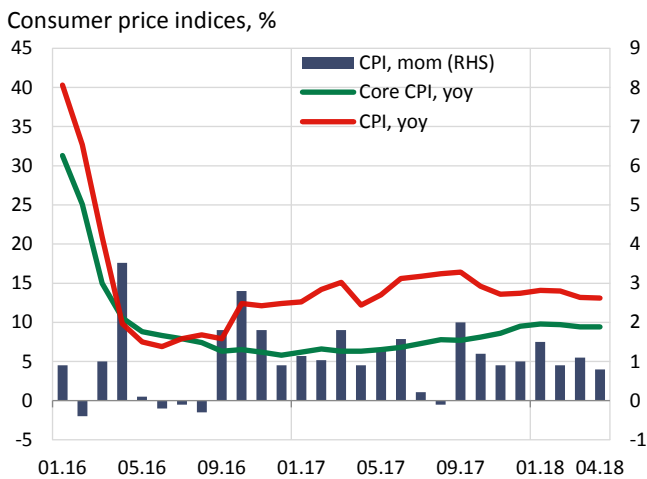
Price growth in mining slowed significantly, mainly driven by downward price trends in world markets. In particular, the declining world iron ore prices caused prices in metal ore mining to fall (by 2.6% yoy), resulting in the slowdown in

metallurgy prices (to 19.1% yoy). In addition, price growth in crude oil and natural gas extraction decelerated (to 8.4% yoy), including due to downward price trends on the global natural gas markets. Growth in prices for coal mining also slowed, driven by external factors (to 22.0% yoy). These trends also led to a slowdown in prices in the chemical industry (to 7.5% yoy).

Price growth in the supply of electric power, natural gas, steam, and conditioned air also slowed (to 17.1% yoy), owing in part to the warmer weather conditions (relative to the norm) in April 2018.

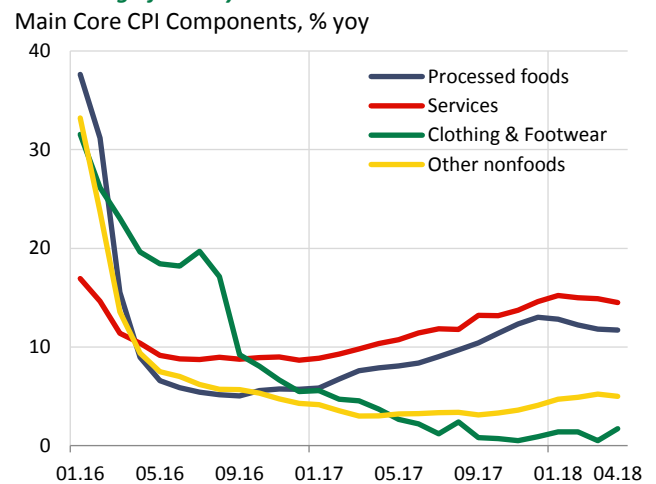
Meanwhile, price growth in the manufacture of foods, beverages and tobacco products accelerated (to 10.7% yoy). Thus, prices in production of dairy products rose at a faster pace (13.3% yoy) due to the unfavorable situation in animal breeding (in particular, the number of cows continued to decrease). At the same time, the price growth in meat production slowed slightly (to 22.4% yoy) amid higher imports of raw materials. The prices of bakery and farinaceous products grew faster (to 14.1% yoy). Also, growth in prices for beverage production was slower than last month (16.8% yoy).

In April 2018, headline inflation decelerated, core inflation held steady



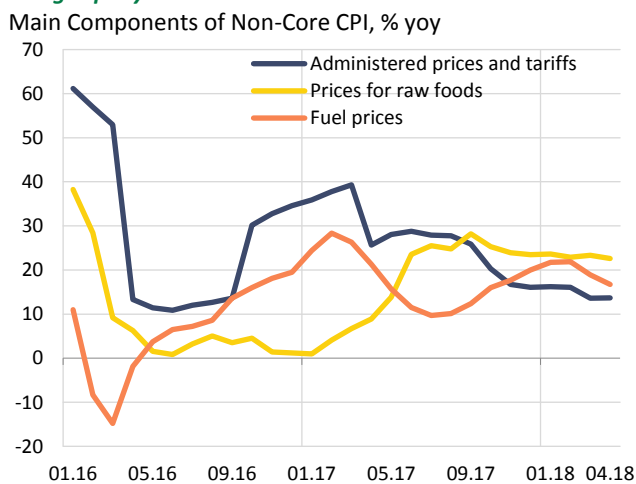
Source: SSSU

The positive effect of hryvnia strengthening since February was offset by the rapidly rising consumer demand, increased costs and delayed impact on clothing and footwear prices from the weakening of the hryvnia in late 2017



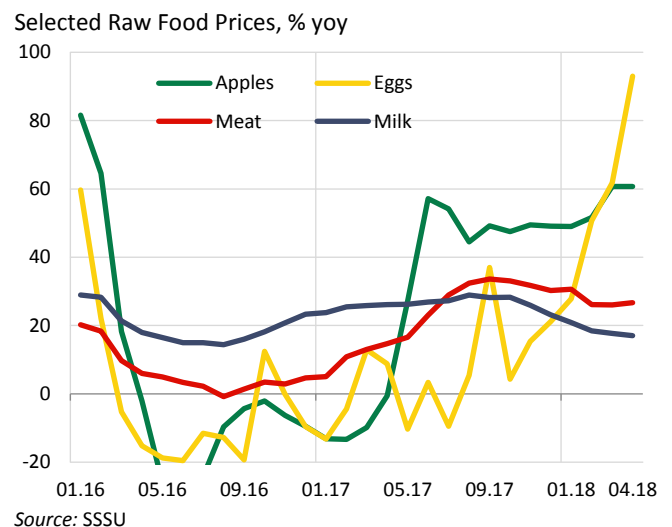
Source: SSSU; NBU staff estimates

A slowdown in headline inflation was mainly driven by moderating fuel and raw food prices. However, these were rising rapidly ...



Source: SSSU; NBU staff estimates

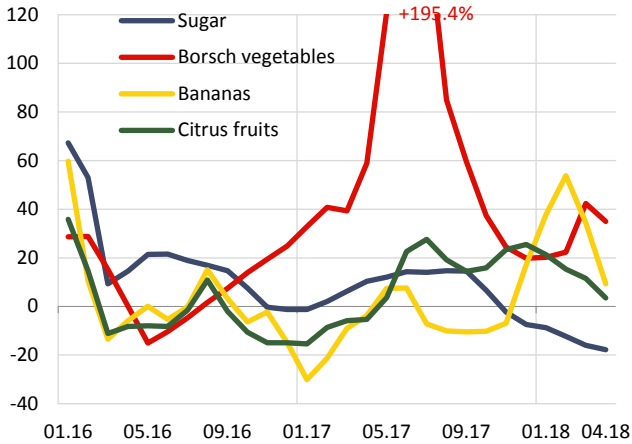
... amid scarce supply (particularly due to a further decline in animal breeding and robust exports), and steady growth in consumer demand



Source: SSSU

Easing pressure from global prices, increased imported supplies and a favorable base of comparison helped contain food price inflation

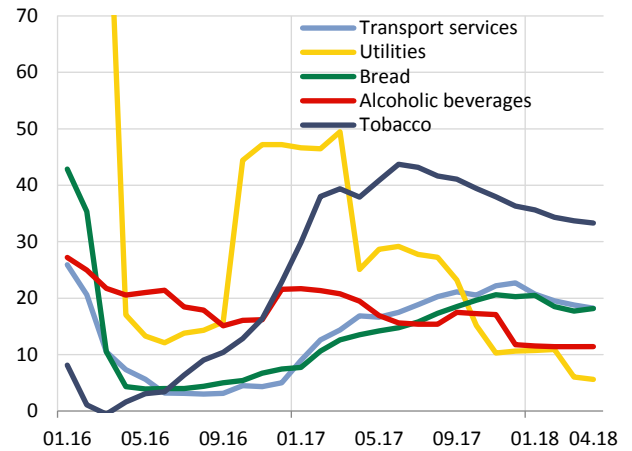
Selected Raw Food Prices, % yoy



Source: SSSU; NBU staff estimates

Administered price inflation was almost flat

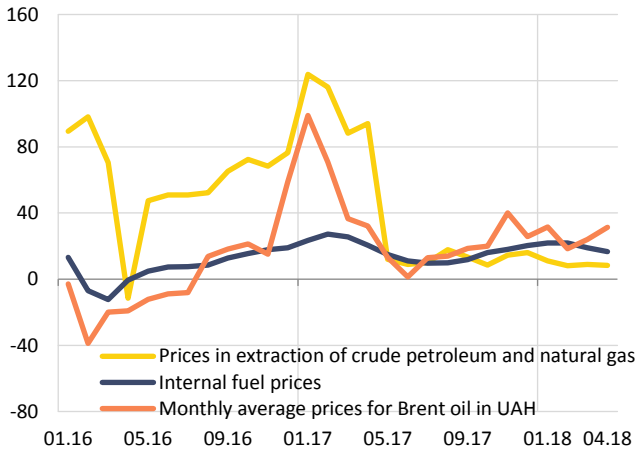
Administered Prices and Utility Tariffs, % yoy



Source: SSSU

The growth in fuel prices slowed markedly mainly owing to benign FX market conditions

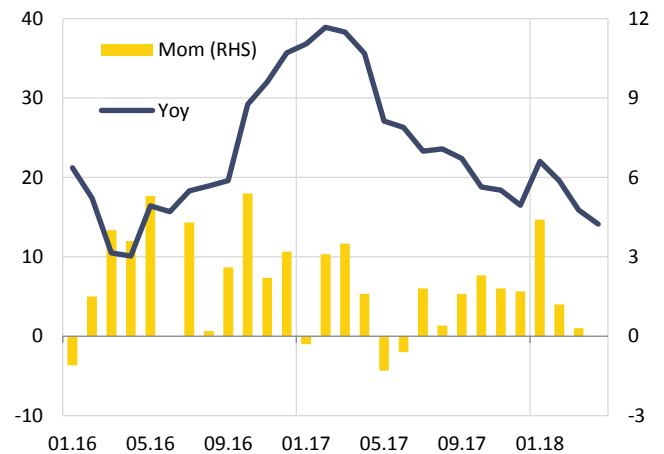
Consumer Fuel Prices, Prices in Extraction of Crude Petroleum and Natural Gas and Global Oil Prices, % yoy



Source: SSSU, Thomson Reuters Datastream

In April 2018, the producer price index continued to decelerate...

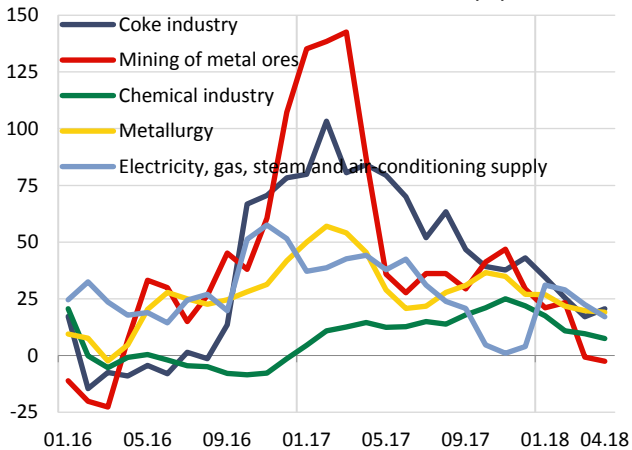
Producer Price Index, %



Source: SSSU

... primarily due to the price slowdown in mining and selected subsectors of manufacturing

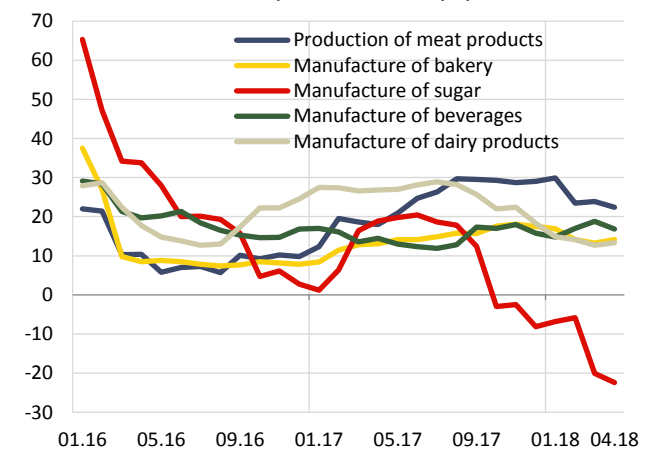
Producer Price Indexes in Select Industries, % yoy



Source: SSSU

Price growth in food industry accelerated somewhat as a result of faster growth in prices for dairy and bread production

Prices in the Food Industry Subsectors, % yoy



Source: SSSU

CPI and PPI growth by components in 2016 - 2018

	Share in CPI for 2018, %	2016	2017	% yoy				% mom Apr
				Jan	Feb	Mar	Apr	
CPI (NBU classification)								
Consumer Price Index	100.0	12.4	13.7	14.1	14.0	13.2	13.1	0.8
Core inflation	58.9	5.8	9.5	9.8	9.7	9.4	9.4	0.6
Non-core inflation *	41.1	17.5	19.4	19.8	19.4	17.9	17.5	1.0
Raw foods	18.6	1.2	23.5	23.6	22.9	23.3	22.6	1.2
Administered prices and tariffs	18.5	34.6	16.1	16.2	16.1	13.6	13.7	1.3
Fuels	4.0	19.5	20.0	21.8	21.9	18.9	16.7	-0.7
CPI (State Statistics Service of Ukraine classification)								
Food and non-alcohol	42.6	3.3	17.7	17.9	17.3	17.3	17.2	1.1
Alcohol, tobacco	8.3	22.5	20.7	20.6	20.2	20.2	20.5	1.5
Clothing and footwear	5.6	5.5	0.9	1.4	1.4	0.5	1.7	2.1
Housing, water, electricity, gas and other fuels incl.:	6.1	47.2	10.6	10.7	10.9	6.0	5.6	0.2
Dwelling maintenance	0.3	11.5	47.5	52.7	52.1	48.1	41.6	0.4
Water supply	0.2	42.1	20.2	20.6	22.8	23.4	21.4	1.3
Hot water	0.2	82.9	0.9	0.9	0.9	0.9	0.9	0.0
Natural gas	1.7	42.0	1.2	1.2	1.2	1.2	1.2	0.0
Central heating	1.1	89.3	3.8	3.7	3.7	3.7	3.8	0.1
Electricity	1.0	60.0	28.1	28.1	28.1	0.0	0.0	0.0
Transport	11.8	11.4	16.7	17.1	16.5	14.9	13.6	0.3
Communication	3.1	4.0	9.1	11.7	11.9	9.9	8.4	1.3
Education	1.5	13.7	14.9	15.3	15.3	15.3	15.3	0.0
PPI								
	Share in PPI for 2018, %**	2016	2017	% yoy				% mom Apr
				Jan	Feb	Mar	Apr	
Producer Price Index	100.0	35.7	16.5	22.0	19.6	15.9	14.1	0.0
Mining and quarrying	14.7	85.1	30.4	23.1	23.5	12.7	8.3	-1.9
Manufacturing of coal	2.5	40.4	47.8	37.1	39.1	39.1	22.0	-1.2
Extraction of crude petroleum and natural gas	5.1	76.5	16.1	11.1	8.2	8.9	8.4	-0.7
Mining of metal ores	6.0	107.2	29.3	21.1	23.3	-0.7	-2.6	-3.7
Manufacturing	65.7	22.6	18.5	18.0	15.2	13.7	13.9	0.7
Manufacture of food products, beverages and tobacco products	21.2	16.2	12.5	11.9	10.9	10.3	10.7	0.4
Manufacture of coke, and refined petroleum products	3.9	61.7	43.0	34.4	25.4	17.1	20.6	1.3
Manufacture of chemicals and chemical products	2.8	-1.4	21.9	17.5	10.9	9.6	7.5	-0.4
Manufacture of basic pharmaceutical products and pharmaceutical preparations	1.4	8.5	11.0	11.9	10.2	11.5	11.5	0.6
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.1	9.5	12.5	13.8	11.7	11.8	11.9	1.1
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.4	41.8	26.9	26.8	21.7	19.7	19.1	1.0
Manufacture of transport equipment	2.8	11.4	17.9	22.1	16.7	18.7	16.0	0.7
Electricity, gas, steam and air-conditioning supply	19.6	51.5	4.0	31.1	29.0	22.4	17.1	-0.5

* Revised NBU staff estimates based on the State Statistics Service of Ukraine data. The sum of contributions of CPI components may deviate from the total CPI through the use of dynamic weights according to the methodology of the SSSU and rounding.

** The shares of PPI components are NBU staff estimates based on the SSSU data on volume of industrial production by type of activity for 2017.

The Review is a translation of the original text in Ukrainian. In case of any discrepancies between the original document and its English translation, readers should consider the Ukrainian version of the Review as correct.

Terms and abbreviations:

CPI – Consumer Price Index

PPI – Producer Price Index

EU – European Union

NBU – National Bank of Ukraine

SSSU – State Statistics Service of Ukraine

yoy – in annual terms; year-on-year change

mom – in monthly terms; month-on-month change